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ORIGINAL

April 8, 2015

Arizona Corporation Commission
DOCKETED

APR 08 2015

HAND DELIVERED

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

DOCKETED BY	RC
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Re: *Arizona Electric Power Cooperative, Inc.'s ("AEPCO") Request for Review of PPFAC Efficacy and Approval of Revised Allocation Methodology ("Efficacy Filing"); Decision No. 74173; Docket No. E-01773A-12-0305*

Dear Sir or Madam:

Pursuant to Staff's request, enclosed are the original and 13 copies of a letter agreement between AEPCO and its Class A Members regarding the Efficacy Filing.

Sincerely,

GALLAGHER & KENNEDY, P.A.

By: 
Jennifer A. Cranston

JAC:njk
Enclosures
10421-0067/4742401

Original and 13 copies filed with Docket Control this 8th day of April, 2015.

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AZ CORP COMMISSION
DOCKET CONTROL

January 15, 2015

Mr. Kevin Short
General Manager
Anza Electric Cooperative, Inc.
58470 Highway 371
Anza, CA 92539

Mr. Steve Lines
General Manager
Graham County Electric Cooperative, Inc.
9 West Center Street
Pima, AZ 85543

Mr. Steve Lunt
General Manager
Duncan Valley Electric Cooperative, Inc.
379537 AZ Highway 75
Duncan, AZ 85534

Mr. Vincent Nitido
Chief Executive Officer/General Manager
Trico Electric Cooperative, Inc.
8600 W. Tangerine Road
Marana, AZ 85658

Mr. J. Tyler Carlson
Chief Executive Officer
Mohave Electric Cooperative, Inc.
1999 Arena Drive
Bullhead City, AZ 86442

Mr. Creden Huber
Chief Executive Officer
Sulphur Springs Valley Electric Cooperative, Inc.
311 E. Wilcox Drive
Sierra Vista, AZ 85635

RE: Modifications to Billing Unit Program and Associated Accounting

Dear General Managers and Chief Executive Officers:

The purpose of this letter is to document and ratify our mutual understanding and agreement with respect to resolving issues with the misapplication of one certain principle and the modification of a second principle, each of which are currently set out in provisions of the wholesale power contracts between Arizona Electric Power Cooperative, Inc. (AEP CO) and each of its Class A Members.

The first principle is from Schedule B and provides for the rounding down of the Allocated Capacity to a whole MW value for those Member(s) that operate in a control area outside of the Southwest Transmission Cooperative, Inc. (SWTC) metered subsystem. In this case, AEP CO applied the rounding down in the Billing Unit Program (BUP) to all Class A Members rather than to just those operating in another control area. This misapplication affected all the Class A Members at one time or another since this principle became effective in January of 2011. AEP CO is seeking to have the General Managers/CEOs of the Class A Members waive the effects of this

misapplication on their respective billings in the period from January of 2011 through October of 2013. The billings for the months since November of 2013 have corrected this misapplication.

The second principle is codified in provisions of the Purchase Power and Fuel Adjustment (PPFAC) calculations of Exhibit A-4 of Rate Schedule A. The provisions affect the allocation among the Class A Members of both (a) the costs of generation from AEPCO gas-fired resources (Other Resources) and energy purchases in lieu of generation from Other Resources (Other Energy Costs) and (b) revenues related to third party sales from AEPCO Other Resources (Other Economy Sales). Simply stated, the current provisions require that the cooperative(s) causing any Other Resource to be dispatched to its load is to be proportionately credited with any margins from Other Economy Sales. AEPCO believes that this principle does not operate fairly in today's market conditions, which allow for Other Economy Sales when little or no Other Energy is scheduled by any of the Class A Members. Hence AEPCO is proposing to modify the principle such that, except for Other Energy Costs properly attributable to a Member in dispatch, any remaining Other Energy Costs and all revenues from Other Energy Sales would be allocated among the members on ACP as a part of the Base Energy Bank. Although the market conditions have existed over the past year, AEPCO is proposing that the modified principle would apply prospectively to PPFAC calculations as of the effective date of approval by the ACC of this modification, which is expected to occur as of April 1, 2015. As this modification amends the PPFAC provisions of the wholesale power contracts, it requires the approval of AEPCO's Board of Directors and of each of the Class A Members. The ACC staff has been advised of the problem and is not expected to oppose the modification.

Presentations on these issues were given to Member representatives in April 2014. Those Member representatives concurred with AEPCO's recommendations on actions to take with respect to the issues related to the principle for rounding and to the principle governing the allocations of Other Resource costs and Other Economy Sales revenues. The following documents the issues for the purposes of approvals by the AEPCO Board of Directors and by the Class A Members.

BACKGROUND

As a result of the Rate Settlement Agreement by and among AEPCO and each of its Class A Members dated May 11, 2010 (Rate Settlement Agreement), AEPCO established (1) distinct scheduling and dispatch procedures (a) for each PRM with loads in the control area of SWTC (SWTC Metered Subsystem) versus (b) those PRMs with loads outside the SWTC Metered Subsystem; and (2) the BUP and associated PPFAC for energy accounting and billing to the CARM and each PRM.

(1) Rounding Issue Details

Pursuant to Schedule B, the AC of PRMs whose loads are outside the SWTC Metered Subsystem are to be rounded down to the nearest whole MW for purposes of scheduling and dispatch, as industry standards require. Conversely, for PRMs whose loads are within the SWTC Metered Subsystem (also applies to CARM), scheduling and dispatch can occur down to the kW, so no rounding down is necessary.

As of January 1, 2011 (the effective date of the contract modifications arising from the Rate Settlement Agreement), Mohave Electric Cooperative, Inc. (MEC) and Sulphur Springs Valley Electric Cooperative, Inc. (SSVEC) were PRMs with their loads outside the SWTC Metered Subsystem, and Trico Electric Cooperative, Inc. (Trico) was a PRM with its loads within the SWTC Metered Subsystem. As required by the All Requirements wholesale power contract, all of the CARM load is within the SWTC Metered Subsystem.

Since 2011, each of the PRMs has effected a switch of its loads from or into the SWTC Metered Subsystem. Effective November of 2012, Trico's loads were transferred from the SWTC Metered Subsystem. Effective February of 2013 and June of 2013, MEC and SSVEC loads, respectively, were transferred into the SWTC Metered Subsystem.

Because of the various timing of load transfers, the Rounding Issue affected Trico for the period of January 1, 2011 through October of 2012, MEC for the period of February 2013 through September 2013, and SSVEC for the period of June 2013 through September of 2013. The error affected CARM for the entire period of January 1, 2011 through September of 2013.

The effect was essentially to understate the Base Resource energy available to the affected Member in the related periods. AEPCO began effecting corrections in billings for October of 2013.

(2) ACP Based Other Resources Cost and Revenue Allocation Process:

In the PPFAC process, both the Other Energy Costs and revenues gleaned from Other Economy Sales have been allocated under the current contract principle among the CARM and each PRM in proportion to that particular Member's MWh use of energy from AEPCO Other Resources. The new principle applying to such allocations is a process (ACP Based Other Resource Cost and Revenue Allocation Process) that would essentially allocate Other Economy Sales revenues on an ACP basis, and is composed of three elements, as follows:

1. AEPCO shall assign Other Energy Costs to the CARM and each PRM, as applicable, for the MWh amounts of Other Resources they used for their load in the month. The charge for such use of Other Energy will be the product of such assigned MWh of Other Energy multiplied by the applicable Daytime/Nighttime monthly weighted average rate in \$/MWh of Other Energy Costs;
2. After applying the process of 1 above, AEPCO shall allocate any Other Energy Costs related to any unassigned Other Energy among CARM and each PRM based on their respective ACP in the Apache Station units as part of the basis for the PPFAC calculations of Base Energy over/under collections; and
3. AEPCO shall allocate all revenues received from Other Economy Sales among the CARM and each PRM based on their respective ACP in the Apache Station units as part of the basis for PPFAC calculations of Base Energy over/under collections.

AEPCO REMEDIAL ACTIONS

With respect to the two changes in principle outlined in this letter, AEPCO is seeking the Class A Members' ratification, waiver, and approval, as applicable, as follows:

January 15, 2015

- (1) **Rounding Issue:** With respect to the Rounding Issue, by executing this letter in the space provided below, each Class A Member would be (a) ratifying AEPCO's October 1, 2013 implementation of the corrected rounding process of Rate Schedule A., and (b) waiving the effect of the Rounding Issue on its billings and PPFAC computations for the period that such Class A Member was affected in the months of January 2011 through September, 2013. The waiver recognizes that AEPCO is unable to seek corrections to billings that were in effect prior to the implementation date of AEPCO's last rate case, which was November 1, 2013.
- (2) **Other Resources - Cost and Revenue Allocations:** With respect to monthly allocations of Other Energy Costs and the revenue from Other Economy Sales, by executing this letter in the space provided below, each Class A Member agrees to replace the current principle of Rate Schedule A for such allocations with the ACP Based Other Resource Cost and Revenue Allocation Process delineated above, to be effective beginning October 1, 2014, with ACC approval of that date and with ACC acceptance of the modification of the PPFAC plan of administration and associated PRM and CARM rate schedules.

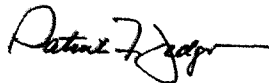
AEPCO will modify and file with the ACC a request to modify the PPFAC Plan of Administration and associated PRM and CARM rate schedules to reflect the ACP Based Other Resource Cost and Revenue Allocation Process as described above. In addition, AEPCO will file with RUS the Other Resource Cost and Revenue Allocation Process as amending Exhibit A-4 to Rate Schedule A. The Members have been asked to seek the approval of their Boards of Directors as soon as possible of this revision which is to be implemented as of October 1, 2014.

AEPCO intends to seek the approval of the AEPCO Board of Directors of the above Remedial Actions at its December meeting.

If your cooperative agrees to the Remedial Actions of AEPCO as outlined above, please so indicate by signing in the appropriate space provided on the signature page of this letter.

Thank you for your cooperation in this matter.

Sincerely,

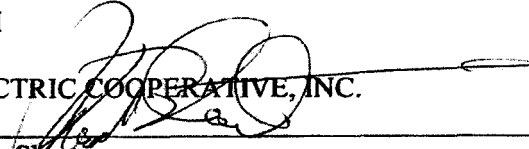


Patrick F. Ledger
Executive Vice President and
Chief Executive Officer

January 15, 2015

SIGNATURE PAGE FOR LETTER RE MODIFICATIONS TO BILLING UNIT PROGRAM

ANZA ELECTRIC COOPERATIVE, INC.

By: 
Name: Kevin Short
Its: General Manager
Date: 1-15-2015

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

By: _____
Name: Steve Lunt
Its: General Manager
Date: _____

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: _____
Name: Steve Lines
Its: General Manager
Date: _____

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____
Name: J. Tyler Carlson
Its: Chief Executive Officer
Date: _____

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By: _____
Name: Creden Huber
Its: Chief Executive Officer
Date: _____

TRICO ELECTRIC COOPERATIVE, INC.

By: _____
Name: Vincent Nitido
Its: Chief Executive Officer/General Manager
Date: _____

January 15, 2015

SIGNATURE PAGE FOR LETTER RE MODIFICATIONS TO BILLING UNIT PROGRAM

ANZA ELECTRIC COOPERATIVE, INC.

By: _____

Name: Kevin Short

Its: General Manager

Date: _____

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

By:  _____

Name: Steve Lunt

Its: Chief Executive Officer

Date: 29 December 2014

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lines

Its: General Manager

Date: _____

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____

Name: J. Tyler Carlson

Its: Chief Executive Officer

Date: _____

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Creden Huber

Its: Chief Executive Officer

Date: _____

TRICO ELECTRIC COOPERATIVE, INC.

By: _____

Name: Vincent Nitido

Its: Chief Executive Officer/General Manager

Date: _____

CEOs/General Managers

Page 5

January 15, 2015

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ANZA ELECTRIC COOPERATIVE, INC.

By: _____

Name: Kevin Short

Its: General Manager

Date: _____

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lunt

Its: General Manager

Date: _____

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: Steve M Lines

Name: Steve Lines

Its: General Manager

Date: 2-2-15

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____

Name: J. Tyler Carlson

Its: Chief Executive Officer

Date: _____

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Creden Huber

Its: Chief Executive Officer

Date: _____

TRICO ELECTRIC COOPERATIVE, INC.

By: _____

Name: Vincent Nitido

Its: Chief Executive Officer/General Manager

Date: _____

January 15, 2015

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By: _____

Name: Steve Lunt

Its: General Manager

Date: _____

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lines

Its: General Manager

Date: _____

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____

Name: J. Tyler Carlson

Its: Chief Executive Officer

Date: 12/15/2014

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Creden Huber

Its: Chief Executive Officer

Date: _____

TRICO ELECTRIC COOPERATIVE, INC.

By: _____

Name: Vincent Nitido

Its: Chief Executive Officer/General Manager

Date: _____

CEOs/General Managers

Page 5

January 15, 2015

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ANZA ELECTRIC COOPERATIVE, INC.

By: _____

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Its: General Manager

Date: _____

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lunt

Its: Chief Executive Officer

Date: _____

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lines

Its: General Manager

Date: _____

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____

Name: J. Tyler Carlson

Its: Chief Executive Officer

Date: _____

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By:  _____

Name: Creden Huber

Its: Chief Executive Officer

Date: 12/17/14

TRICO ELECTRIC COOPERATIVE, INC.

By: _____

Name: Vincent Nitido

Its: Chief Executive Officer/General Manager

Date: _____

CEOs/General Managers

Page 5

January 15, 2015

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ANZA ELECTRIC COOPERATIVE, INC.

By: _____

Name: Kevin Short

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By: _____

Name: Steve Lunt

Its: General Manager

Date: _____

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Steve Lines

Its: General Manager

Date: _____

MOHAVE ELECTRIC COOPERATIVE, INC.

By: _____

Name: J. Tyler Carlson

Its: Chief Executive Officer

Date: _____

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

By: _____

Name: Creden Huber

Its: Chief Executive Officer

Date: _____

TRICO ELECTRIC COOPERATIVE, INC.

By:  _____

Name: Vincent Nitido

Its: Chief Executive Officer/General Manager

Date: 1/28/15